Note 1 - Organization and Summary of Significant Accounting Policies

Organization

The Puerto Rico Medical Services Administration (the Administration), is a public corporation and an instrumentality of the Commonwealth of Puerto Rico (the Commonwealth) adhered to the Puerto Rico Department of Health (the Department). The Administration was created by Law Number 66 of June 22, 1978, as amended, to plan, organize, operate and administer the Centralized health services, provided in support of hospitals and other functions offered by the member institutions and consumers of the complex known as Puerto Rico Medical Center. As a component unit of the Department, the Administration is also included as part of the Department's reporting entity.

As an instrumentality of the Commonwealth, the Administration is exempt from income, property and municipal license tax.

The Administration's capital is funded by non-reimbursable legislature appropriations from the Commonwealth, in-kind donations or cash from various governmental agencies or instrumentalities of the Commonwealth, federal grants and other contributions.

Summary of significant policies

The accounting and reporting policies of the Administration conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a description of the most significant accounting policies:

Basis of presentation

The Administration financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board (GASSB) Statement No. 34 (GASB No. 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* GASB 34, as amended, establishes standards for external financial reporting for all state and local government entities, which includes a statement of net assets (deficit), a statement of revenues, expenses and changes in net assets (deficit), and a statement of cash flows. It requires the classification of net assets into three components: invested in capital assets, net of related debt, restricted, and unrestricted.

Note 1 - Organization and Summary of Significant Accounting Policies - (continued)

Basis of presentation – (continued)

These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any bonds, mortgage notes, or other borrowings that are attributable to and spent in the acquisition, construction, or improvement of those assets.

  If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt; rather, that portion of the debt is included in the same net assets component as the unspent proceeds. As of June 30, 2011, net assets invested in capital assets, net of related debt consisted of the balance of capital assets less obligation under capital leases.

- Restricted – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributions, or laws or regulations of other governments of constrains imposed by law through constitutional provisions or enabling legislation. As of June 30, 2011, net assets restricted consisted mainly of cash available from governmental contributions received for improvements to the Administration's facilities and other capital additions.

- Unrestricted deficit – This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

During 2010, and for the periods ended June 30, 2011 and 2010, the Administration adopted Governmental Accounting Standards Board (GASB) Statement No. 62, whose objective is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The GASB also allows the Corporation to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict or contradict with GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20. The adoption of GASB statement No. 62 did not have an effect on the Corporation's financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies - (continued)

Measurement focus and basis accounting

The financial statements of the Administration are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental units. Under this basis, revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectable for accounts receivable for services to patients, and liabilities, including estimated malpractice liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenue and expenses incurred during the reporting period. The reserve for doubtful accounts, and the estimated malpractice liabilities, among other accounts, requires the significant use of estimates. Actual results could differ from those estimates.

Accounts receivable

Accounts receivable from member institution are presented net of advances received by the Administration from these institutions. These advances are received on a quarterly basis and are applied to the accounts receivable as services are rendered. Approximately $146 million, representing receivables from member institutions and private insurance, are not expected to be collected during the year ending June 30, 2011, which are included as part of the allowance for doubtful accounts within accounts receivable in the accompanying statements of net assets (deficit).

Valuation of accounts receivable

The Administration makes judgments as to the collectability of accounts receivables based on historical trends and future expectations. Management estimates an allowance for doubtful accounts, which represents the collectability of patient service accounts receivables. This allowance adjusts gross patient service accounts receivable downward to their estimated net

Note 1 - Organization and Summary of Significant Accounting Policies - (continued)

Valuation of accounts receivable – (continued)

realizable value. To determine the allowance for doubtful accounts, management reviews specific customer risk for accounts over 365 days using the Administration's accounts receivable aging.

Fair value of financial instruments

The carrying amounts reported in the statement of net assets (deficit) for cash and receivables, approximate their fair value due to their short-term duration. The carrying amount of obligation under capital leases equals its fair value.

Inventories

Are stated at the lower of cost (first-in, first-out) or market. Inventories consist of drugs, medicines, provisions and materials.

Capital assets

Capital assets are stated at cost and equipment under capital leases at the present value of minimum lease payments, in accordance with the provision of the FASB Accounting Standards Codification Topic of *Accounting for Leases*. Capital assets are defined by the Administration as assets with an individual cost of more than $100.

Depreciation and amortization are computed using the straight-line method over the estimated useful life of the related assets or the lease term, as follows:

Description	Useful Life
Land improvements	40 years
Building	40 years
Building improvements	5 years
Machinery and equipment	3-20 years
Equipment under capital leases	Lease term

Note 1 - Organization and Summary of Significant Accounting Policies - (continued)

Capital assets – (continued)

At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation is removed from the Administration's books and the resulting gain or loss, if any, is credited or charged to operations.

Accounting for the impairment of capital assets

The Administration accounts for assets impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its services utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries. A capital asset generally should be considered impaired if both, (a) the decline in service utility of the capital asset is large in magnitude, and (b) the event of change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value.

Compensated absences

The vacation and sick leave policy of the Administration provides for the accumulation of thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacation time is fully vested to the employees from the first day of work. An employee is reimbursed for accumulated vacation days up to the maximum allowed of sixty (60) days.

Under the collective bargain agreement, which went into effect on January 1, 2006, employees are entitled to the payment of the excess of fifteen (15) days in accumulated sick leave up to a maximum of eighteen (18) days.

As per Law No. 156 of August 20, 1996, for fiscal years beginning after July 1, 1997, the employees have the right to accumulate the excess of 60 and 90 days in vacation and sick leaves, respectively, until December 31st of each year. The excess should be paid to the employees before March 31st of the following year.

Note 1 - Organization and Summary of Significant Accounting Policies - (continued)

Net patient service revenue

The Administration has agreements with third-party payors that provide for payments to the Administration at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursement costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimate basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Post-employment benefits other than pension benefits

The Administration adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The Administration provides post-retirement benefits to all employees who meet certain age and years of services requirements. Such benefits consist principally of health care benefits and a post-employment payment. Healthcare benefits are provided for a period of six (6) months after retirement. A lump-sum payment is made for post-employment bonus after retirement.

Revenues

Consist primarily of services provided to members institutions, third party payors, others, and are reported at the estimated net realizable amounts for services rendered to patients.

Operating revenues and expenses

Operating revenues and expenses are those that result from operating service activities. Interest income and expenses related mainly with restricted deposits, obligations under capital leases and other are not included as part of operating revenues and expenses.

Note 1 - Organization and Summary of Significant Accounting Policies - (continued)

Insurance

The Administration carries commercial insurance to cover for casualty, theft, claims and other losses. The Commonwealth negotiates the commercial insurance coverage, and the cost is paid by the Administration. The Administration is self-insured for medical malpractice claims and judgments, as discussed in Note 5. The Administration also pays for workers' compensation insurance to another component unit of the Commonwealth.

Non-exchange transactions

GASB Statement No. 33, *Accounting and Financial Reporting for Non- exchange Transactions*, establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, grants, and contributions). In a non-exchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal value. Under the provisions of the GASB 33, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

Deposits and investment risks

The Administration adopted the GASB Statement No. 40 *Deposit and Investment Risk Disclosure* – an amendment of GASB Statement No. 3. The Statement addresses common deposit and investment risks related to credit, concentration, interest rate and foreign currency. Among other disclosures, the Statement requires certain disclosures applicable to deposits or investments having fair values that are highly sensitive to changes in interest rates.

Note 2 - Restricted Cash

Restricted cash as of June 30 consisted of:

Description	2011	2010
Cash-restricted for:		
Improvemens to medical facilities and equipment purchase	$ 2,488,698	$2,443,931
Self-insurance fund	8,402,715	2,265
Gamma Knife	101,646	-
Other	3,383	3,383
	$10,996,442	$2,449,579

The Administration's restricted cash are comprised of deposits held in custody by a banking institution. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, with the remaining balance collateralized with financial instruments held by a trust of the Commonwealth. Based on these provisions, deposits are not considered to be subject to custodial credit risk, which is the risk that in the event of a bank's failure, the Administration's deposits may not be returned.

Note 3 - Net Service Revenue

Patient Services Revenue

The Administration has agreements with medical insurance companies and the Medicare program for payments to the Administration, at amounts different from its established rates. A summary of the most significant agreements, with these entities is as follows:

Medicare - Impatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient capital costs are paid based on the fully prospective method. Medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Administration is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Administration and desk reviews thereof by the Medicare fiscal intermediary. The Administration's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through 2010.

Note 3 - Net Service Revenue – (continued)

Patient Services Revenue – (continued)

The cost report for 2011 is subject to the Medicare fiscal intermediary examination. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Others - The Administration has entered into payment agreements with some commercial insurance carriers and other healthcare organizations. The basis for payment to the Administration under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Member Institutions

Also, the Administration has agreements with different governmental entities of the Commonwealth of Puerto Rico for payments to the Administration, at its established rates.

A summary of gross and net patient service revenue for the years ended June 30, follows:

Year ended June 30, 2011:

	Net Patient Service Revenue	Members Institutions	Total
Gross patient service revenue	$103,624,991	$104,719,972	$208,344,963
Less provisions for:			
Contractual adjustments under third party	(60,552,153)	-	(60,552,153)
Net service revenue	$ 43,072,838	$104,719,972	$147,792,810

Note 3 - Net Service Revenue – (continued)

Year ended June 30, 2010:

	Net Patient Service Revenue	Members Institutions	Total
Gross patient service revenue	$120,928,621	$99,646,727	$220,575,348
Less provisions for:			
Contractual adjustments under third party	(95,900,641)	-	(95,900,641)
Net service revenue	$ 25,027,980	$99,646,727	$124,674,707

Note 4 - Capital Assets

Capital assets as of June 30, 2011 and 2010, and activity during the years then ended is as follow:

Description	Balance June 30, 2010	Acquisitions	Retirements	Reclasification	Balance June 30, 2011
Capital assets not being depreciated:					
Land	$ 6,871,955	$ -	$ -	$ -	$ 6,871,955
Construction in progress	22,000,000	-	-	(22,000,000)	-
	28,871,955	-	-	(22,000,000)	6,871,955
Capital assets being depreciated:					
Land improvements	11,867,399	-	-	-	11,867,399
Building and improvements	57,806,637	148,079		22,000,000	79,954,716
Machinery and equipment	48,502,312	1,122,541	(1,506,422)	-	48,118,431
Equipment under capital leases	20,584,964	-	(74,444)	-	20,510,520
	138,761,312	1,270,620	(1,580,866)	22,000,000	160,451,066
Accumulated depreciation and amortization:					
Land improvements	11,654,870	87,953	-	-	11,742,823
Building and improvements	44,320,382	1,890,826	-	-	46,211,208
Machinery and equipment	30,250,664	4,349,848	(1,287,236)	-	33,313,276
Equipment under capital leases	20,460,662	64,443	(74,444)	-	20,450,661
	106,686,578	6,393,070	(1,361,680)	-	111,717,968
Capital assets being depreciated, net	32,074,734	(5,122,450)	(219,186)	22,000,000	48,733,098
Capital assets, net	$ 60,946,689	$ (5,122,450)	$ (219,186)	$ -	$ 55,605,053

Note 4 - Capital Assets – (continued)

Description	Balance June 30, 2009	Acquisitions	Retirements	Reclasification	Balance June 30, 2010
Capital assets not being depreciated:					
Land	$ 6,871,955	$ -	$ -	$ -	$ 6,871,955
Construction in progress	21,389,247	-	-	610,753	22,000,000
	28,261,202	-	-	610,753	28,871,955
Capital assets being depreciated:					
Land improvements	11,802,399	65,000	-	-	11,867,399
Building and improvements	57,836,646	580,744	-	(610,753)	57,806,637
Machinery and equipment	49,737,569	875,099	(2,110,356)	-	48,502,312
Equipment under capital leases	20,819,382	-	(234,418)	-	20,584,964
	140,195,996	1,520,843	(2,344,774)	(610,753)	138,761,312
Accumulated depreciation and amortization:					
Land improvements	11,529,607	125,263	-	-	11,654,870
Building and improvements	41,918,787	2,401,595	-	-	44,320,382
Machinery and equipment	28,297,383	4,026,291	(2,073,010)	-	30,250,664
Equipment under capital leases	19,895,604	798,710	(233,652)	-	20,460,662
	101,641,381	7,351,859	(2,306,662)	-	106,686,578
Capital assets being depreciated, net	38,554,615	(5,831,016)	(38,112)	(610,753)	32,074,734
Capital assets, net	$ 66,815,817	$ (5,831,016)	$ (38,112)	$ -	$ 60,946,689

Amortization expense of equipment under capital leases for the year ended June 30, 2011 and 2010 amounted to $64,443 and $798,710, respectively.

Note 5 - Self-Insurance Fund

Beginning in fiscal year 1986, the Administration decided to stop carrying commercial insurance because of its prohibitive cost and approved the establishment of a Self-Insurance Fund (the Fund) to account for and finance its uninsured risks of loss related to professional liability claims. Patient and non-patient generally liability exposures are insured elsewhere and are not covered by the Fund.

The Administration maintains in the Fund cash of $8,402,715 and $2,265 as of June 30, 2011 and 2010, respectively, to provide for the payment of possible claims. Funding requirements are determined based on actuarial report and the Administration's Internal Council Office. The most recent actuarial reports as of June 30, 2011 and 2010, presented estimated liabilities of approximately $4,239,500 and $5,246,400, respectively, which were related with claims incurred during the years ended June 30, 1989 to June 30, 2010.

The following is the activity of the restricted cash available and liabilities payable from restricted assets under the Self-Insurance Fund for the year ended June 30, 2011 and 2010.

June 30, 2011:

Description	Restricted cash	Liabilities Payable
Balances as of beginning of year	$ 2,265	$ 7,405,510
Funds received from operations	9,088,998	400
Claims paid and other disbursements	(688,548)	(411,290)
Balance as of end of year	$8,402,715	$ 6,994,620

June 30, 2010:

Description	Restricted cash	Liabilities Payable
Balances as of beginning of year	$ 1,648	$ 7,641,660
Funds received from operations	242,414	-
Claims paid and other disbursements	(241,797)	(236,150)
Balance as of end of year	$ 2,265	$ 7,405,510

Note 6 - Accrued Pension Costs

Accrued pension costs as of June 30 consisted of:

June 30, 2011:

Description	Amount
Employer's contributions	$ 2,741,390
Employee's contributions	2,403,208
Employee's and employer's contributions under System 2000	4,590,431
Withholdings of employees' loans	74,534
Interest and other	19,226,250
	$29,035,813

June 30, 2010:

Description	Amount
Due to Employees' Retirement System for early retirement in year 2000, in arrears	$ 5,160,046
Employer's contributions	15,814,836
Employee's contributions	13,590,497
Cost of living adjustment (C.O.L.A.) for years ended June 30, 2002 through 2010	13,404,228
Employee's and employer's contributions under System 2000	11,754,735
Withholdings of employees' loans	2,145,722
Interest and other	15,868,471
	$77,738,535

Note 7 - Employees' Retirement Plan

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (the System) is a cost sharing multiple-employer defined-benefit pension plan sponsored by, and reported as a component unit of the Commonwealth.

The System was created under Act. No 447 (the Act), approved on May 15, 1951, as amended, and became effective on January 1, 1952. All regular appointed and temporary employees of the Administration under age of fifty-five (55) at the date of employment became plan participants of the System.

The System provides retirement, death, and disability benefits. Retirement benefits depend upon age retirement and number of years of credited service. Benefits generally vest after ten (10) years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest thirty-six (36) months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $200 per month and a maximum of 75 percent of the average compensation.

Contribution requirements, which are established by Law and are not actuarially determined, are as follows:

Commonwealth	9.275% of applicable payroll
Employees:	
Hired on or before March 31, 1990	5.775% of monthly gross salary up to $550
	8.275% of monthly gross salary over $550
Hired on or after April 1, 1990	8.275% of monthly gross salary

On September 24, 1999, an amendment to Act, which created the System, was enacted with the purpose of establishing a defined contribution plan known as System 2000.

Note 7 - Employees' Retirement Plan – (continued)

System 2000 became effective on January 1, 2000. Employees participating in the defined-benefit plan (the "traditional plan") at December 31, 1999, had the option to either stay in the traditional plan or transfer to System 2000. Persons employed on or after January 1, 2000, are only allowed to become members of System 2000.

System 2000 is a hybrid defined-contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the System, together with those of System 2000 benefit plan. The Commonwealth does not guarantee benefits at retirement age. The annuity is based on a formula which assumes that each year the participants' contribution (with a minimum of 8.275 percent of the participants' salary up to a maximum of 10%) will be invested as instructed by the participant in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earn a rate equal to 75% of the return of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of a defined contribution plans showing their accrued balances. Disability pensions are not granted under System 2000. The employers' contributions (9.275% of the employee's salary) are used to fund the defined benefit plan.

System 2000 reduces the retirement age from sixty-five (65) years to sixty (60) years for those employees who joined the current plan on or after January 1, 2000.

Total employee and employer required contributions for the years ended June 30, 2011, 2010 and 2009, are as follows:

Description	2011	2010	2009
Traditional Plan-			
Employer	$ 3,063,550	$ 3,107,405	$6,223,312
Employee	$ 2,681,952	$ 2,740,949	$3,224,864
System 2000-			
Employer	$ 2,632,640	$ 2,635,002	$1,481,351
Employee	$ 2,382,469	$ 2,384,653	$1,330,459
Interest	$ 4,931,284	$ 6,797,048	$3,688,886

Note 7 - Employees' Retirement Plan – (continued)

Total employee and employers contributions paid by the Administration during the years ended June 30, 2011, 2010 and 2009 are as follows:

Description	2011	2010	2009
Traditional Plan-			
Employer	$14,302,950	$ 767,557	$ 626,440
Employee	$ 7,958,453	$ 890,119	$ 710,971
System 2000-			
Employer	$ 9,397,254	$ 534,092	$ 237,910
Employee	$ 5,318,483	$ 681,770	$ 225,243

As of June 30, 2011 and 2010, the total unpaid employee and employer contributions, due to the System including interest, amounted to $29,035,813 and $77,738,535.

For the year ended June 30, 2011 and 2010, total covered payroll for employees was approximately $61,465,342 and $62,209,757, respectively. Covered payroll refers to all compensation paid by the Administration to employees covered by the ERS on which contributions to the pension are based.

The System issues, publicly available financial reports that include their basic financial statements and required supplementary information. Those reports may be obtained by writing to the System's administrator at 437 Ponce de León, Hato Rey, Puerto Rico 00918, Telephone Number (787) 756-4410.

Note 8 - Post-Employment Benefits other than Pensions

The Administration provides certain health care benefits (for a six-month period after retirement) and post-employment bonus payment to eligible retired employees, financed on a pay-as-you-go basis. Substantially, all the Administration's employees may become eligible for those benefits if they reach normal retirement age while working for the Administration.

Note 8 - Post-Employment Benefits other than Pensions – (continued)

The Administration's annual other postemployment benefit (OPEB) cost (expense) for each plan is calculated based of the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

The calculation was based on the types of benefits provided under the terms of employees' collective bargain agreements. The calculation involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and such determined amounts are subject to continual revision as actual results compared to past experience and new estimates are made about the future. The required schedule of funding progress as of June 30, 2011 and 2010, presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Description	2011	2010
Benefit obligation, beginning of year	$ 981,935	$ 782,825
Change in benefit obligation:		
Amortization of past service cost ($4,010,699 in 2011 and $3,869,100 in 2010)	240,840	227,687
Service cost	182,273	174,590
Adjustment to annual required contribution	(20,855)	(15,667)
Benefits paid	-	(187,500)
Annual postemployment cost	402,258	199,110
Benefit obligation accrued at end of year reflected in balance sheet	$ 1,384,193	$ 981,935

Note 8 - Post-Employment Benefits other than Pensions – (continued)

Description	2011	2010
Assumptions:		
Discount rate	4.0%	4.0%
Expected long-term rate of return on plan assets	0.00%	0.00%
Health care cost trend rate	6.50%	5.60%
Retirement age	65 years	65 years

Required supplementary information

Schedule of Funding Progress
($ 000s)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	$ -	$3,869	$3,869	0.0%	72,395	5.3%
July 7, 2007	$ -	$1,059	$1,059	0.0%	58,714	1.8%

Schedule of Employer Contributions
($ 000s)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$387	48.5%	$982
June 30, 2009	$639	16.9%	$783
June 30, 2008	$302	16.5%	$252

Note 9 - Commitments and Contingencies

Commitments

Capital leases

The Administration leases certain equipment under various capital lease agreements expiring in various dates through the year 2012. The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2011, under existing capital lease agreements are as follows:

Years ending June 30,	Amount
2012	$179,794

Activity of long-term debt for the years ended June 30, 2011 and 2010, are as follows:

As of June 30, 2011:

Description	Balance June 30, 2010	Increase	Decrease	Balance June 30, 2011	Current Portion
Capital lease obligations	$ 259,650	$ -	$ 79,856	$ 179,794	$ 179,794

As of June 30, 2010:

Description	Balance June 30, 2009	Increase	Decrease	Balance June 30, 2010	Current Portion
Capital lease obligations	$ 306,553	$ -	$ 46,903	$ 259,650	$ 184,065

Note 9 - Commitments and Contingencies – (continued)

Commitments – (continued)

Operating leases

The Administration leases certain equipment under various operational lease agreements expiring at various dates through year 2020. In addition, other commitments exist related to contracts for materials and maintenance. Total rental expense under operating leases amounted to approximately $1,104,712 and $1,366,102 for the years ended June 30, 2011 and 2010, respectively.

Future minimum rental under the non-cancelable operating leases are as follows:

Years ending June 30,	Amount
2012	$ 2,021,959
2013	1,936,915
2014	1,582,888
2015	465,768
2016	247,187
2017-2020	1,169,565
	$ 7,424,282

Government Development Bank Line of Credit

On October 14, 2010 the Legislature of the Commonwealth of Puerto Rico approved a new article 9A to the Law 66 of June 22, 1978, by which it authorized to the Administration to incur on obligation up to $285,000,000, under such terms and conditions approved by the Board of Member Institutions (the Board) of the Administration and the Government Development Bank (BGF), as fiscal agent of the Government of Puerto Rico and its instrumentalities.

These additional funds shall be deposited in a special BGF account and may only be used for the following:

a. payment of debts to suppliers, agencies, institutions, reserve fund for the self-insurance (professional responsibility and inter-fund debt) of the Administration; and

Note 9 - Commitments and Contingencies – (continued)

Commitments – (continued)

Government Development Bank Line of Credit – (continued)

b. to provide operational liquidity to ease their fiscal situation during the 2010-2011 fiscal year, as determined by the agreement with the BGF.

From savings generated as a result of the debt renegotiations with the agencies and institutions will create a fund to cover operating expenses related to maintenance, overhaul and reconditioning of the physical plant. The BGF, in its role as fiscal agent, shall possess the administrative mechanisms as it deems necessary to ensure that these funds will be used solely and exclusively for the purposes set forth in Article 9A to law 66 of June 22, 1978. The special bank account created with this subsection and the funds deposited therein shall not be seized, syndicated, frozen, encumbered or otherwise affected by decisions, judgments, orders or rulings issued by courts of Justice of the Government of Puerto Rico or the agencies or public corporations of the Government of Puerto Rico, during any adjudicative proceeding of administrative or judicial nature, regardless of whether they were initiated by private individuals or public institutions.

The Administration was required to develop and implement within one hundred eighty (180) days from the approval of this Article 9A, an aggressive collection plan for the recovery of accounts receivable. The Directors shall report periodically to the BGF on the implementation of that plan, and report annually to the Board and BGF the collection proceeds arising from the execution of the plan. BGF was authorized as fiscal agent to undertake any necessary measures in order to, within a reasonable period of time, help the Administration to become and operate as an independent fiscal instrumentality.

However, once the collection plan is working as expected, and providing the Administration the funds resources required, and became a financially independent institution as determined by BGF, the Administration will be required to assume the remaining established obligations.

The Commonwealth of Puerto Rico will honor the payment of the obligations authorized, with legislative appointments made by the Legislative Body of Puerto Rico on the functional budgets of every fiscal year, beginning with the fiscal year 2012-2013 and ending in the fiscal year 2023-2024.

Note 9 - Commitments and Contingencies – (continued)

Commitments – (continued)

Government Development Bank Line of Credit – (continued)

Also, for the fiscal years 2012-2013 and 2013-2014, the Director of the Office of Management and Budget of Puerto Rico, will consign on the functional budgets of the Commonwealth of Puerto Rico submitted annually by the Governor to the Legislative Body of Puerto Rico, the amount corresponding to interests on the obligations incurred and, beginning on the fiscal year 2014-2015, and for the next nine (9) years, the amount of $31,522,222 plus interests on the obligations incurred. If in any moment the legislative contributions or other income of the Administration weren't enough to cover up the payment of the obligations authorized and the accrued interests, the Secretary of Treasury of Puerto Rico will withdraw from any amounts available in the General Fund of the Commonwealth of Puerto Rico the necessary amounts to repay the principal and interests of the line of credit.

Contingencies

The Administration is a party in certain legal actions and claims related to medical malpractice arising in the ordinary conduct of its business. Although the Administration appears as a defendant in the claims, many of them involve medical personnel of the member institutions, and in effect, these claims are against said institutions. As a result of the deficiency as of June 30, 2011 and 2010, of funds available in the Self-Insurance Fund, any unfavorable outcome may have a significant effect on the financial condition of the Administration.

Based on a review of current facts and circumstances management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. The Administration has established an accrual reserve for claim losses in the amount of $6,994,620 and $7,405,510 at June 30, 2011 and 2010, respectively.

Note 9 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Regulatory issues

The healthcare industry is subject to numerous laws and regulations which include, among other things, matters such as government healthcare participation requirements, various licenses and accreditations, reimbursements for patient services and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statues and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be subjected to fines or penalties. While management of the Administration believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Administration will not be subject to governmental inquires or actions.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in August 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations are required to be in compliance with HIPAA provisions. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. The Administration's management believes that they are in compliance.

Note 10 - Services to Member Institutions and Medical Indigent Population

The Administration derives a substantial portion of its revenues from services provided to member institutions. In addition, the Administration provides services to the medical indigent population, which does not have formal means of repayment. Amounts due from member institutions and medical indigent population may be subject to periodic revisions, and/or adjustments based on the availability of funds of the member institutions and/or the Commonwealth of Puerto Rico.

Note 11 - Contributions from the Commonwealth of Puerto Rico

Governmental contributions during the year ended June 30, 2011 and 2010, consist of the following:

Description	2011	2010
Funds received in connection with Joint Resolution No. 4533 approved by the Commonwealth's Legislature on August 12, 2004, assigned $40.5 million to the Administration for the construction of a new Trauma facilities, the establishment of a Gamma Knife Center, a blood bank, improvement to the emergency room and purchase of equipment.	$ 386,995	$ 528,736
Funds received in connection with Joint Resolution No. 116 approved by the Commonwealth's Legislative Assembly on July 23, 2007, assigning $2.9 million to the Administration for the acquisition of medical equipment.	19,080	-
Funds received in connection with Joint Resolution No. 68 approved by the Commonwealth's Legislature on July 2, 2010, to reimburse the Administration for the payment of recruitment, payroll contributions and operating expenses made during year ended June 30, 2011 and 2010.	18,160,000	15,160,000
	$18,566,075	$15,688,736

Note 12 - Gain on debt forgiveness

As fully disclosed in note 9 above, during 2011 the Administration obtained a line of credit from the Puerto Rico Governmental Development Bank (GDB) that was used to settle certain amounts due to suppliers, agencies and institutions. From the savings generated as a result of the debt renegotiations, the Administration recorded a gain on debt forgiveness amounting to $42,830,577, included as non-operating income in the accompanying statement of revenues, expenses and changes in net assets (deficit).

Note 13 - Plans to Improve the Administration's Financial Condition

The financial condition of the Administration has been weakened by high operating costs and recurring operating losses, which has affected its ability to pay its suppliers, governmental agencies and other creditors on a regular basis. In addition, the Administration has been affected by the delay in the collection of billings for services rendered to member institutions. As of June 30, 2011 and 2010, the Administration has total deficit of $182,463,948 and $181,941,920, respectively. The Administration's operations will depend on obtaining additional contributions from the Commonwealth of Puerto Rico to partially subsidize existing and future operating losses, resulting from high operating costs and services provided to the medical indigent population not covered under any private health insurance or non-participating in the Health Reform Program Administered by the Puerto Rico Health Insurance Administration (ASES).

The Administration has made formal request to various Commonwealth's agencies, including the Office of Management and Budget, petitioning additional funds to subsidize its operating deficit.

The following initiatives have been established:

1. On September 7, 2005, Act 112 was approved to amend Article 15 of Act 66 of June 22, 1978. The last-mentioned Act requires, from the Secretary of Health and the ASEM's Executive Director (CEO), the compilation and submission to the Governor and to Legislative Assembly of Puerto Rico, a reorganization plan for the integration and consolidation of administrative functionalities and programs of all the components of the Puerto Rico Medical Center to achieve operational efficiency and reduction of costs.

2. In connection with the requirements of Act 112, and to comply with the foresaid integration and consolidation, on January 31, 2007, the Secretary of Health and the ASEM's CEO submitted to the Governor of the Commonwealth of Puerto Rico an action plan for the improvement of the Puerto Rico Medical Center. This plan included the Administration (ASEM), the University District Hospital (UDH) and the Pediatric University Hospital (PUH). Similar recommendations were included in a 2008 report, by the Health System Evaluation Committee appointed by the Governor in reference to the operation of the Medical Center. The report highlights the following recommendations:

    a. To obtain more relevant information of all the Medical Center Components, in addition to the information included in the report, to determine necessary changes and to establish the feasibility criteria for a reorganization of the Medical Center.

Note 13 - Plans to Improve the Administration's Financial Condition – (continued)

b. The implementation of a new integrated information system to be shared with the member institutions. This system is already in place and fully operational.

c. The reevaluation of the relationship of all Member Institutions with the Medical Services Administration itself to promote the efficiency utilization and quality of services. Presently there are several agreements in process with the Medical Sciences Campus and other Institutions as well.

d. The establishment of a Project of Law to harmonize the Act 66 of June 22, 1978, (the creator of the ASEM), with Act 72 (September 7, 1993), which implement the Health Reform by the Puerto Rico Health Insurance Administration (ASES).

e. The establishment of recurrent financing sources by the Government of Puerto Rico's Office of Management and Budget (OGP) to subsidize ASEM's costly operation and, therefore, to be able to keep providing the complex medical services, the use of highly technological equipment and to subsidize the clinical treatment to the medical indigent and economical disadvantaged population not covered otherwise.

3. The establishment of revised chart of rates for services rendered to member institutions, medical insurance companies and others, to cover the actual cost.

4. Enforce the member institutions to comply with Article No. 13 of Act 6 (June 2, 1978), as amended. It requires the settlement of past due amounts owed to the Administration at the end of each fiscal year, documented with periodic billings submitted for goods and services provided in excess of periodic cash advances received.

5. Requesting that all past unpaid debts incurred by the member institutions with the Administration be settled immediately. Presently, ASEM is developing a collections plan as applicable as discussed below.

6. Establishing a subsidiary of accounts receivable for Member Institutions to achieve and enhance the recovery of delinquent accounts. This was established at the beginning of this fiscal year.

Note 13 - Plans to Improve the Administration's Financial Condition – (continued)

7. The Administration acquired a system for the billing of the health insurance companies. It also contains bookkeeping and administrative tools to improve management and control of the accounts receivables. The Administration expects a billing and recovery improvement in this area. This system is in place and working properly.

8. Furthermore, self-motivated, with the rebuilding of the Pharmacy facilities, along with a Cardinal Health's Pyxis system, we will improve our medications delivery efficiency and reduce the drugs wasting. This also provides mechanisms to the correct invoicing of medications to the patients and insurances as well. There will also be new tasks created with this project. These can also generate direct income by selling the service of the recombination of intravenous medications to other hospitals in the area. The law provides that this can only be performed by licensed pharmacists in a licensed facility, being ASEM's the only one in the Medical Center with such characteristics.

9. Another initiative gestated by the Office of ASEM's CEO was the contracting the expertise of Vixen Technology Services, LLC, to improve all administrative process leading to the patients involving: admissions, pre-certification, claims and billing, among others. According to the 2010-000042 contract, Vixen will help the ASEM to recover a substantial amount of money during the 2011-12 FY.

Note 14 - Uncertainties

The Administration has net accounts receivable aggregating $18,617,323 and $24,257,830 from the Hospital of the Municipality of San Juan, related to medical services rendered by the Administration to the municipality of San Juan covering inpatient and outpatient services, laboratory, pharmacy, general services and other ancillary services billed to the Municipality in accordance with the provision of Law No. 66 of June 22, 1978, which created the Administration, to operate and administer the centralized health services, provided in support of the member institution and consumers of the complex known as "Puerto Rico Medical Center". The Administration demands that these amounts are due related to services rendered covering the period from June 30, 2005 to June 30, 2011; however, curtain amounts are still unpaid.

The Administration filled a claim at the Puerto Rico Department of Justice and at the Commission for the Resolution of Controversies for Over Payment and Debts between Governmental Agencies (the Commission), demanding the resolution of this matter.

Note 14 - Uncertainties – (continued)

On June 29, 2009, the Commission designated the Puerto Rico Office of Management and Budget (OMB) to serve as a mediator in this claim. As of the date of the accompanying financial statements, no resolution or recommendation has been made by OMB in connection with this controversy.

Note 15 - Concentration of credit – patients' accounts receivable

The Administration grants credit without collateral to its patients, most of who are residents of Puerto Rico and are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors at June 30, is as follows:

	2011	2010
ACAA	8%	29%
Humana Insurance	8%	4%
Private	36%	24%
Triple S	7%	8%
MCS	24%	6%
Medicare	6%	3%
Others	11%	26%
	100%	100%

Note 16- Functional expenses

The Administration provides general health care services. Expenses, related to providing these services for the year ended June 30, are as follow:

	2011	2010
Health care services	$158,105,055	$165,083,650
General and administrative	40,907,050	54,347,048
	$199,012,105	$219,430,698

Note 17 - Subsequent event

The Administration evaluated subsequent events through November 1, 2011, which is the date the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and to the financial statements were available to be issued, that would require additional adjustment to, or disclosure in the financial statements.